

## NEWS RELEASE

### FOR RELEASE

Hunzelman, Putzier & Co., PLC today released an audit report on City of Kingsley, Iowa.

Hunzelman, Putzier & Co., PLC reported that the City of Kingsley's receipts totaled \$1,089,957 for the year ended June 30, 2006. The receipts included \$255,040 in property tax, \$65,356 in tax increment financing collections, \$338,335 from charges for service, \$154,162 from operating grants, contributions, and restricted interest, \$121,153 from capital grants, contributions, and restricted interest, \$110,212 from local option sales tax, \$26,447 from unrestricted investment earnings, and \$19,252 from other general receipts.

Disbursements for the year totaled \$1,032,115 and included \$282,081 for culture and recreation, \$209,680 for public works, and \$112,422 for debt service. Also, disbursements for business type activities totaled \$209,481.

This report contains recommendations to the City Council and their indicated responses to the recommendations.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

CITY OF KINGSLEY

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2006

CITY OF KINGSLEY  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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CITY OF KINGSLEY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2006)		
Gary Hunwardsen	Mayor	January, 2006
Helen Hagan	Council Member	January, 2006
Ron Mathers	Council Member	January, 2006
Tim Worrell	Council Member	January, 2006
Bob Bird	Council Member	January, 2008
Keith Bohle	Council Member	January, 2008
Vicki Sitzmann	City Clerk	Indefinite
Barry Thompson	Attorney	Indefinite
(After January, 2006)		
Gary Hunwardsen	Mayor	January, 2008
Bob Bird	Council Member	January, 2008
Keith Bohle	Council Member	January, 2008
Helen Hagan	Council Member	January, 2010
Ron Mathers	Council Member	January, 2010
Tim Worrell	Council Member	January, 2010
Vicki Sitzmann	City Clerk	Indefinite
Barry Thompson	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.  
JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
Kingsley, Iowa:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Kingsley, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information for the City of Kingsley as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2006, on our consideration of City of Kingsley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11 and 24 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

November 8, 2006

*Hungelman, Putzier & Co.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Kingsley provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities were \$826,208 for the year ended June 30, 2006, and included \$255,040 in property taxes, \$65,356 in tax increment financing collections, and \$110,212 in local option sales tax.

Disbursements of the City's governmental activities were \$822,634 for the year ended June 30, 2006, and included \$282,081 for culture and recreation, \$209,680 for public works, \$112,422 for debt service, and \$96,246 for general government.

The City's total cash basis net assets increased 0.6%, or approximately \$58,000, from June 30, 2005, to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$4,000 and the assets of the business type activities increased by approximately \$54,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.



## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, and debt service. Property tax and state and federal grants finance most of these activities.

Business Type Activities include water, sewer, and solid waste services. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund, (2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, (3) the Debt Service Fund, and (4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements, and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds. All of these funds are considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements, and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u> (Expressed in Thousands)		<u>Year Ended June 30,</u>
		<u>2006</u>
Receipts and transfers:		
Program receipts:		
Charges for service		\$ 75
Operating grants, contributions, and restricted interest		154
Capital grants, contributions, and restricted interest		121
General receipts:		
Property tax		255
Tax increment financing		65
Local option sales tax		110
Unrestricted investment earnings		27
Utility excise taxes		6
Industrial development loan payments		7
Other general receipts		<u>6</u>
Total receipts		<u>826</u>
Disbursements:		
Public safety		93
Public works		209
Health and social services		1
Culture and recreation		282
Community and economic development		29
General government		96
Debt service		<u>113</u>
Total disbursements		<u>823</u>
Increase in cash basis net assets		3
Cash basis net assets beginning of year		<u>777</u>
Cash basis net assets end of year		<u>\$780</u>

The City's total receipts for governmental activities were approximately \$826,000 for June 30, 2006, compared to \$712,000 from June 30, 2005. The total cost of all programs and services decreased by approximately \$14,000, or 0.2%. The increase in receipts was primarily the result of an Iowa DOT trail grant of \$96,100, donations totaling \$20,000, and various other grants and reimbursements.

The cost of all governmental activities this year was \$823,000. However, as shown in the Statement of Activities and Net Assets on pages 12-13, the amount taxpayers ultimately financed for these activities was only \$473,000 because some of the cost was paid by those directly benefited from the programs (\$75,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$275,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$431,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

<u>Changes in Cash Basis Net Assets of Business Type Activities</u> (Expressed in Thousands)		<u>Year Ended June 30,</u> <u>2006</u>
Receipts:		
Program receipts:		
Charges for service:		
Water		\$ 93
Sewer		61
Solid waste		<u>110</u>
Total receipts		<u>264</u>
Disbursements:		
Water		56
Sewer		56
Solid waste		<u>98</u>
Total disbursements		<u>210</u>
Increase in cash balance net assets		54
Cash basis net assets beginning of year		<u>121</u>
Cash basis net assets end of year		<u>\$ 175</u>

Total business type activities receipts for the fiscal year were \$264,000 compared to \$247,000 last year.

Total disbursements for the fiscal year decreased by \$13,000, to a total of \$210,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Kingsley completed the year, its governmental funds reported a combined fund balance of \$780,399, an increase of \$3,574 from last year's total of \$776,825. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$37,047 from the prior year to \$197,451. This increase was primarily due to trail donations, park grant, trees please grant, and refunds.

The Road Use Fund cash balance decreased \$70,779 to \$76,609 primarily as a result of doing major street projects this year.

The Local Option Sales Tax Fund, which accounts for monies received from the state for community betterment and property tax relief, cash balance increased by \$1,702 to \$230,207.

The Tax Increment Financing Fund, which accounts for projects financed by tax increment financing, cash balance increased by \$35,635 to \$114,829. This increase was primarily due to the addition of two new TIF districts.

The Debt Service Fund, which accounts for the payment of principal and interest on the City's long-term debt, cash balance decreased by \$98 to \$60,189.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund, which accounts for the operation and maintenance of the City's water system, cash balance increased by \$36,894 to \$87,528, due primarily to the increased water rates in 2003, which help offset the cost of building a new water tower in 2004, and increased usage by customers.

The Sewer Fund, which accounts for the operating and maintenance of the City's waste water treatment and sanitary sewer system, cash balance increased by \$5,261 to \$42,331.

The Solid Waste Fund, which accounts for the City's system of solid waste removal, cash balance increased by \$12,113 to \$45,034, due to recycling reimbursements from the County landfill and more uniform payments by consumers of construction and demolition expenses to the City.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 1, 2006, and resulted in an increase of \$122,800 in receipts and an increase of \$171,623 in disbursements. The increase in receipts was due mainly to an Iowa DOT trail grant of \$96,100 and trail donations of \$20,000.

The increase in disbursements was due primarily to trail projects payments of \$120,126 and Hillview TIF rebates of \$22,184.

## DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$770,000 in bonds and notes, compared to approximately \$850,000 last year.

### Outstanding Debt at Year-End (Expressed in Thousands)

	<u>June 30, 2006</u>
General obligation bonds	\$185
General obligation notes	<u>585</u>
	<u>\$770</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$770,000 is significantly below its constitutional debt limit of \$2.5 million.

## ECONOMIC FACTORS

The City of Kingsley's City Council and Mayor considered many factors when setting the fiscal year 2007 budget, including sources for additional revenue and a set spending plan.

Revenues continue to be steady. Local Option taxes are \$113,000 per year and are helping fund infrastructure throughout the City including debt payments for the water tower and the County jail payment. Cable and internet franchise fees are an added income of approximately \$24,000 per year.

Phase II of the walking and fitness trail will be the largest expenditure for the 2007 fiscal year at \$154,000 (depending on the bid), with donations covering the twenty percent match to the Iowa DOT Enhancement Grant. Bid letting for the project will possibly be in April 2007, with construction in the fall. Purchase of a new ambulance will be in the 2007 fiscal year using \$60,000 in long term reserve funds, and trade-in of the old ambulance.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Vicki Sitzmann, City Clerk, P.O. Box 309, Kingsley, Iowa 51028-0309.

CITY OF KINGSLEY  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit A

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
			Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest			
	Disbursements	Charges for Service			Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 93,110	\$ 40,591	\$ 2,667	\$ -	\$ (49,852)	\$ -	\$ (49,852)
Public works	209,680	1,004	105,438	-	(103,238)	-	(103,238)
Health and social services	400	-	-	-	(400)	-	(400)
Culture and recreation	282,081	6,415	46,057	121,153	(108,456)	-	(108,456)
Community and economic development	28,695	-	-	-	(28,695)	-	(28,695)
General government	96,246	26,576	-	-	(69,670)	-	(69,670)
Debt service	112,422	-	-	-	(112,422)	-	(112,422)
Total governmental activities	822,634	74,586	154,162	121,153	(472,733)	-	(472,733)
Business type activities:							
Water	55,896	92,790	-	-	-	36,894	36,894
Sewer	55,987	61,248	-	-	-	5,261	5,261
Solid waste	97,598	109,711	-	-	-	12,113	12,113
Total business type activities	209,481	263,749	-	-	-	54,268	54,268
Total	\$ 1,032,115	\$ 338,335	\$ 154,162	\$ 121,153	(472,733)	54,268	(418,465)
General Receipts:							
Property tax levied for:							
General purposes					206,490	-	206,490
Tax increment financing					65,356	-	65,356
Debt service					48,550	-	48,550
Local option sales tax					110,212	-	110,212
Unrestricted interest on investments					26,447	-	26,447
Utility excise taxes					6,050	-	6,050
Industrial development loan payments					7,225	-	7,225
Miscellaneous					5,977	-	5,977
Total general receipts					476,307	-	476,307
Change in cash basis net assets					3,574	54,268	57,842
Cash basis net assets beginning of year					776,825	120,625	897,450
Cash basis net assets end of year					\$ 780,399	\$ 174,893	\$ 955,292

(Continued)

CITY OF KINGSLEY  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit A  
(Continued)

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Cash Basis Net Assets							
Restricted:							
Streets					\$ 76,609	\$ -	\$ 76,609
Tax increment financing projects					114,829	-	114,829
Debt service					60,189	-	60,189
Other purposes					331,321	-	331,321
Unrestricted					<u>197,451</u>	<u>174,893</u>	<u>372,344</u>
Total cash basis net assets					<u>\$ 780,399</u>	<u>\$ 174,893</u>	<u>\$ 955,292</u>

See notes to financial statements.

CITY OF KINGSLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit B

	Special Revenue						
	General	Road Use	Local Option Sales Tax	Tax Increment Financing	Debt Service	Non-Major	Total
Receipts:							
Property taxes	\$ 206,490	\$ -	\$ -	\$ -	\$ 48,550	\$ -	\$ 255,040
Tax increment financing	-	-	-	65,356	-	-	65,356
Other city tax	4,983	-	110,212	-	1,067	-	116,262
Licenses and permits	26,815	-	-	-	-	-	26,815
Use of money and property	36,467	-	-	-	-	790	37,257
Intergovernmental	119,186	104,238	-	-	-	-	223,424
Charges for service	58,932	-	-	-	-	400	59,332
Miscellaneous	33,257	-	-	-	-	2,240	35,497
Total receipts	<u>486,130</u>	<u>104,238</u>	<u>110,212</u>	<u>65,356</u>	<u>49,617</u>	<u>3,430</u>	<u>818,983</u>
Disbursements:							
Operating:							
Public safety	93,110	-	-	-	-	-	93,110
Public works	34,663	175,017	-	-	-	-	209,680
Health and social services	400	-	-	-	-	-	400
Culture and recreation	275,492	-	-	-	-	6,589	282,081
Community and economic development	-	-	-	21,696	-	6,999	28,695
General government	96,246	-	-	-	-	-	96,246
Debt service	-	-	-	-	112,422	-	112,422
Total disbursements	<u>499,911</u>	<u>175,017</u>	<u>-</u>	<u>21,696</u>	<u>112,422</u>	<u>13,588</u>	<u>822,634</u>
Excess (deficiency) of receipts over disbursements	<u>(13,781)</u>	<u>(70,779)</u>	<u>110,212</u>	<u>43,660</u>	<u>(62,805)</u>	<u>(10,158)</u>	<u>(3,651)</u>
Other financing sources (uses):							
Industrial development loan repayments	-	-	-	-	-	7,225	7,225
Transfers in	53,828	-	-	-	62,707	3,000	119,535
Transfers out	(3,000)	-	(108,510)	(8,025)	-	-	(119,535)
Total other financing sources (uses)	<u>50,828</u>	<u>-</u>	<u>(108,510)</u>	<u>(8,025)</u>	<u>62,707</u>	<u>10,225</u>	<u>7,225</u>
Net change in cash balances	37,047	(70,779)	1,702	35,635	(98)	67	3,574
Cash balances beginning of year	<u>160,404</u>	<u>147,388</u>	<u>228,505</u>	<u>79,194</u>	<u>60,287</u>	<u>101,047</u>	<u>776,825</u>
Cash balances end of year	<u>\$ 197,451</u>	<u>\$ 76,609</u>	<u>\$ 230,207</u>	<u>\$ 114,829</u>	<u>\$ 60,189</u>	<u>\$ 101,114</u>	<u>\$ 780,399</u>

(Continued)



CITY OF KINGSLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit B  
(Continued)

	<u>Special Revenue</u>						Total
	General	Road Use	Local Option Sales Tax	Tax Increment Financing	Debt Service	Non-Major	
Cash Basis Fund Balances							
Reserved:							
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 60,189	\$ -	\$ 60,189
Unreserved:							
General	197,451	-	-	-	-	-	197,451
Special revenue	-	76,609	230,207	114,829	-	48,117	469,762
Permanent	-	-	-	-	-	52,997	\$2,997
Total cash basis fund balances	<u>\$ 197,451</u>	<u>\$ 76,609</u>	<u>\$ 230,207</u>	<u>\$ 114,829</u>	<u>\$ 60,189</u>	<u>\$ 101,114</u>	<u>\$ 780,399</u>

See notes to financial statements.

CITY OF KINGSLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit C

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 92,790	\$ 61,248	\$109,711	\$ 263,749
Operating disbursements:				
Business type activities	<u>55,896</u>	<u>55,987</u>	<u>97,598</u>	<u>209,481</u>
Net change in cash balances	36,894	5,261	12,113	54,268
Cash balances beginning of year	<u>50,634</u>	<u>37,070</u>	<u>32,921</u>	<u>120,625</u>
Cash balances end of year	<u>\$ 87,528</u>	<u>\$ 42,331</u>	<u>\$ 45,034</u>	<u>\$ 174,893</u>
Cash Basis Fund Balances				
Unreserved	<u>87,528</u>	<u>42,331</u>	<u>45,034</u>	<u>174,893</u>
Total cash basis fund balances	<u>\$ 87,528</u>	<u>\$ 42,331</u>	<u>\$ 45,034</u>	<u>\$ 174,893</u>

See notes to financial statements.

CITY OF KINGSLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Kingsley is a political subdivision of the State of Iowa located in Plymouth County. It was first incorporated in 1884 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Kingsley has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standard Board criteria.

Jointly Governed Organizations - The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint members to Plymouth County Assessor's Conference Board, Plymouth County E911 Board, and Plymouth County Solid Waste Agency.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF KINGSLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for monies received to be used for community betterment and property tax relief.

The Tax Increment Financing Fund is used to account for projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system..

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Solid Waste Fund accounts for the operation and maintenance of the City's system of solid waste removal.

CITY OF KINGSLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting

The City of Kingsley maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation function.

2. CASH AND INVESTMENTS

The City's deposits in banks at June 30, 2006, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

CITY OF KINGSLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>General Obligation</u> <u>Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 90,000	\$ 29,803
2008	95,000	26,592
2009	95,000	23,068
2010	100,000	19,377
2011	50,000	15,298
2012- 2016	235,000	50,092
2017-2021	<u>105,000</u>	<u>6,978</u>
	<u>\$770,000</u>	<u>\$171,208</u>

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2006, was \$9,525, equal to the required contribution for the year.

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$5,731</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

CITY OF KINGSLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

6. SOLID WASTE DISPOSAL AGREEMENT

The City entered into an agreement with the Plymouth County Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, to provide for the disposal of solid waste from within the City. For the year ended June 30, 2006, \$45,522 was paid pursuant to the agreement.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform maintenance and monitoring functions at the site for thirty years after closure. The cost for closure and post closure to the Agency have been estimated at \$675,000 as of June 30, 2006, and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2006, deposits of \$455,242 are restricted for these purposes. No estimate has been made as to the effect of future assessments to the City.

7. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2006, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	\$ 53,828
Special Revenue: Industrial Development	General	3,000
Debt service	Special Revenue: Tax increment financing Local Option Sales Tax	8,025 54,682
		<u>\$119,535</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

8. SERVICE AGREEMENTS

The City has an agreement with Sanitary Services for refuse collection and hauling of solid waste and recyclable materials. Payments under this agreement were \$41,476 for the year ended June 30, 2006.

9. BUDGET OVEREXPENDITURE

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2006, disbursements in the Culture and Recreation function exceeded the amount budgeted.

CITY OF KINGSLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

10. INDUSTRIAL DEVELOPMENT LOANS RECEIVABLE

The City periodically gives 0% interest bearing loans to businesses that wish to locate within city limits to promote industrial development. Below is a summary of this activity for the year ended June 30, 2006.

<u>Balance</u>	<u>New</u>	<u>Payments</u>	<u>Balance</u>
<u>6/30/05</u>	<u>Loans</u>	<u>Received</u>	<u>6/30/06</u>
	<u>Issued</u>		
<u>\$24,375</u>	<u>\$ -</u>	<u>\$7,225</u>	<u>\$17,150</u>

11. RISK MANAGEMENT

City of Kingsley is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. COMMITMENTS

During the year ended June 30, 2002, the City entered into a 28E Agreement with Plymouth County and surrounding communities to contribute funds for the construction of a County jail from local option sales tax proceeds. The City of Kingsley has agreed to contribute a total of \$200,758 through November 2016. As of June 30, 2006, the City has made payments totaling \$54,041.

13. CONSTRUCTION CONTRACT

The City has entered into the following contract which was not completed as of June 30, 2006.

<u>Project</u>	<u>Total</u>	<u>Amount</u>	<u>Remaining</u>
	<u>Contract</u>	<u>Paid</u>	<u>Commitment</u>
	<u>Amount</u>	<u>As of</u>	<u>As of</u>
		<u>6-30-06</u>	<u>6-30-06</u>
Recreational trail	\$138,662	\$124,959	\$13,703

The above costs will be paid from grant proceeds and funds on hand.

14. RELATED PARTY TRANSACTIONS

The City had business transactions with City officials totaling \$4,431 during the year ended June 30, 2006.



## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KINGSLEY  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL  
FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 255,040	\$ -	\$ 255,040	\$ 255,785	\$ 255,785	\$ (745)
Tax increment financing collections	65,356	-	65,356	67,890	67,890	(2,534)
Other city tax	116,262	-	116,262	121,897	121,897	(5,635)
Licenses and permits	26,815	-	26,815	2,970	2,970	23,845
Use of money and property	37,257	-	37,257	24,865	24,865	12,392
Intergovernmental	223,424	-	223,424	120,100	222,900	524
Charges for service	59,332	263,749	323,081	314,200	314,200	8,881
Miscellaneous	35,497	-	35,497	24,600	44,600	(9,103)
Total receipts	<u>818,983</u>	<u>263,749</u>	<u>1,082,732</u>	<u>932,307</u>	<u>1,055,107</u>	<u>27,625</u>
Disbursements:						
Public safety	93,110	-	93,110	126,435	126,435	33,325
Public works	209,680	-	209,680	259,900	259,900	50,220
Health and social services	400	-	400	400	400	-
Culture and recreation	282,081	-	282,081	142,895	274,534	(7,547)
Community and economic development	28,695	-	28,695	11,100	41,284	12,589
General government	96,246	-	96,246	128,400	128,400	32,154
Debt service	112,422	-	112,422	114,543	114,543	2,121
Business type activities	-	209,481	209,481	309,900	319,700	110,219
Total disbursements	<u>822,634</u>	<u>209,481</u>	<u>1,032,115</u>	<u>1,093,573</u>	<u>1,265,196</u>	<u>233,081</u>
Excess (deficiency) of receipts over disbursements	(3,651)	54,268	50,617	(161,266)	(210,089)	260,706
Other financing sources, net	<u>7,225</u>	<u>-</u>	<u>7,225</u>	<u>9,500</u>	<u>9,500</u>	<u>(2,275)</u>
Excess of receipts and other financing sources over disbursements and other financing uses	3,574	54,268	57,842	(151,766)	(200,589)	258,431
Balances, beginning of year	<u>776,825</u>	<u>120,625</u>	<u>897,450</u>	<u>785,353</u>	<u>785,353</u>	<u>112,097</u>
Balances, end of year	<u>\$ 780,399</u>	<u>\$ 174,893</u>	<u>\$ 955,292</u>	<u>\$ 633,587</u>	<u>\$ 584,764</u>	<u>\$ 370,528</u>

See accompanying independent auditor's report.

CITY OF KINGSLEY  
NOTES TO REQUIRED SUPPLEMENTARY  
INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2006, the budget was amended one time which increased budgeted disbursements by \$171,623. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation function.

## OTHER SUPPLEMENTARY INFORMATION

CITY OF KINGSLEY  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Schedule 1

	<u>Special Revenue</u>		<u>Permanent</u>	
	<u>Industrial Development</u>	<u>Library Special</u>	<u>Cemetery</u>	<u>Total</u>
Receipts:				
Use of money and property	\$ -	\$ 711	\$ 79	\$ 790
Charges for service	-	-	400	\$ 400
Miscellaneous	-	2,240	-	2,240
Total receipts	-	2,951	479	3,430
Disbursements:				
Culture and recreation	-	6,589	-	6,589
Community and economic development	6,999	-	-	6,999
Total disbursements	6,999	6,589	-	13,588
Excess (deficiency) of receipts over disbursements	(6,999)	(3,638)	479	(10,158)
Other financing sources:				
Industrial development loan repayments	7,225	-	-	7,225
Transfers in	3,000	-	-	3,000
Total other financing sources	10,225	-	-	10,225
Net change in cash balances	3,226	(3,638)	479	67
Cash balances beginning of year	20,575	27,954	52,518	101,047
Cash balances end of year	<u>\$ 23,801</u>	<u>\$ 24,316</u>	<u>\$ 52,997</u>	<u>\$ 101,114</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue	\$ 23,801	\$ 24,316	\$ -	\$ 48,117
Permanent	-	-	52,997	52,997
	<u>\$ 23,801</u>	<u>\$ 24,316</u>	<u>\$ 52,997</u>	<u>\$ 101,114</u>

See accompanying independent auditor's report.

CITY OF KINGSLEY  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2006

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End Of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds/notes:									
Library/City Hall bonds	May 1, 1999	4.15 - 4.50%	\$ 400,000	\$225,000	\$ -	\$ 40,000	\$185,000	\$ 9,715	\$ -
Urban Development notes	April 15, 2000	5.50%	75,000	55,000	-	5,000	50,000	3,025	-
Water Tower notes	August 4, 2003	1.80 - 4.35%	<u>650,000</u>	<u>570,000</u>	<u>-</u>	<u>35,000</u>	<u>535,000</u>	<u>19,682</u>	<u>-</u>
			<u>\$1,125,000</u>	<u>\$850,000</u>	<u>\$ -</u>	<u>\$ 80,000</u>	<u>\$770,000</u>	<u>\$32,422</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF KINGSLEY  
BOND AND NOTE MATURITIES  
YEAR ENDED JUNE 30, 2006

Schedule 3

General Obligation Bonds/Notes							
Year Ending June 30,	Library/City Hall <u>Issued May 1, 1999</u>		Urban Development <u>Issued April 15, 2000</u>		Water Tower <u>Issued August 4, 2003</u>		<u>Total</u>
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
2007	4.20%	\$ 45,000	5.50%	\$ 10,000	2.20%	\$ 35,000	\$ 90,000
2008	4.30	45,000	5.50	10,000	2.60	40,000	95,000
2009	4.40	45,000	5.50	10,000	2.90	40,000	95,000
2010	4.50	50,000	5.50	10,000	3.20	40,000	100,000
2011	-	-	5.50	10,000	3.40	40,000	50,000
2012	-	-	-	-	3.60	45,000	45,000
2013	-	-	-	-	3.70	45,000	45,000
2014	-	-	-	-	3.80	45,000	45,000
2015	-	-	-	-	3.90	50,000	50,000
2016	-	-	-	-	4.05	50,000	50,000
2017	-	-	-	-	4.15	50,000	50,000
2018	-	-	-	-	4.25	50,000	50,000
2019	-	-	-	-	4.35	5,000	5,000
		<u>\$185,000</u>		<u>\$ 50,000</u>		<u>\$ 535,000</u>	<u>\$ 770,000</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.  
JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council  
Kingsley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Kingsley, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 8, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Kingsley's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Kingsley's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06 and I-B-06 are material weaknesses.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Kingsley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Kingsley, and other parties to whom City of Kingsley may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Kingsley during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

November 8, 2006



CITY OF KINGSLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- I-A-06     Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by one individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will review the segregation of duties by having a council member check the clerk's paperwork on a quarterly basis.

Conclusion - Response accepted.

- I-B-06     Record of Accounts - The fire department and ambulance maintain the accounting records pertaining to the operation of those funds. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Iowa Code states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any officer, employee or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - These funds should be included in the City's financial records and any disbursements should be budgeted and properly supported by adequate documentation of public purpose.

Response - Fire and ambulance records and accounts will be reviewed and records will be reported to the City Clerk on a quarterly basis.

Conclusion - Response acknowledged, however, provisions contained in the Code of Iowa Chapters 384.3, 384.16, and 384.70 clearly establish the City's responsibility for budgeting, accounting, and reporting all city funds. It is the recommendation of the Auditor of the State, that the city clerk perform the accounting and reporting requirements. It is generally more efficient and the city clerk is bonded and insured in the event of financial impropriety. In addition, the city typically has established the internal controls to ensure proper accountability and compliance with local, state, and federal requirements.

CITY OF KINGSLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting:

- II-A-06    Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states in part that public moneys may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The Culture and Recreation function was over budget because of unexpected expenses for the walking trail and related engineering expenses. Amendments will be made in a timely manner.

Conclusion - Response accepted.

- II-B-06    Questionable Disbursements - The City makes monthly payments to the volunteer ambulance department based on the number of calls made by the personnel. However, the City has no documentation which demonstrates that these funds were expended for a proper public purpose.

Recommendation - The City should directly pay expenses for the volunteer ambulance department based on sufficient documentation that the expenditure serves a public purpose.

Response - Documentation is made by the Ambulance Crew Chief for monthly ambulance runs and who responds. Payment is only made to volunteers who respond.

Conclusion - Response accepted.

- II-C-06    Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-06    Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Mathers, Council Member, Owner of Clark's Hardware	Repairs and maintenance supplies	\$ 4,096
Helen Hagan, Council Member, Former City Clerk	Consulting fees	\$ 335

CITY OF KINGSLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-D-06    Business Transactions - (Continued)

In accordance with chapter 362.5(11) of the Code of Iowa, the transactions with Helen Hagan do not appear to be a conflict of interest since total transactions were less than \$2,500 during the fiscal year. The transactions with Clark's Hardware may represent a conflict of interest.

Recommendation - The Code does allow the City to transact business with City officers or employees in excess of \$2,500 but only if the contract is made subject to a competitive bid in writing, publicly invited, and opened.

Response - Clark's Hardware is the only hardware store in the city and therefore numerous purchases are made locally. Large purchases will be priced competitively.

Conclusion - Response accepted.

II-E-06    Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-06    Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. However, the published minutes did not include the total disbursements from each fund as required by Iowa Code Section 372.13(6).

Recommendation - The City should include all information required by the Code in the publication of the minutes.

Response - The published minutes now contain the total disbursements from each fund.

Conclusion - Response accepted.

II-G-06    Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, the investment policy was last reviewed several years ago and since that time certain sections of the Code of Iowa dealing with the investment policy have been changed.

Recommendation - The City Council should review and approve the investment policy periodically and update the Iowa Code references.

Response - The City's investment policy will be reviewed and updated if needed.

Conclusion - Response accepted.

CITY OF KINGSLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-H-06     Excess Balances - The following funds have balances at June 30, 2006, in excess of one year's expenditures:

Special Revenue - Tax Increment Financing  
                    - Local Option Sales Tax  
                    - Industrial Development  
                    - Library Special

Recommendation - While it appears that these funds may have an excess balance, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - Tax Increment Financing - Hillview includes a rebate TIF payment annually to local developers; Brookview TIF monies are used to pay general obligation notes for water and sewer improvements. The Council is working on plans of how to disburse the Low-Moderate Income amounts.

Local Option Sales Tax - Local Option sales tax is being used to pay general obligation notes for the water tower, the city's share of Plymouth County jail payment and interest, and infrastructure improvements.

Industrial Development - This fund is used to help start new businesses. There is a transfer of \$3,000 per year from the General Fund. Perhaps this transfer could be suspended until some loans are made.

Library Special - These funds are tracked in the City's bookkeeping, but the Library Board has jurisdiction over how these monies are spent.

Conclusion - Response accepted.

II-I-06     Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but do not obtain an image of the back of each cancelled check as required.

Recommendation - The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The City now receives images of both the front and back of cancelled checks.

Conclusion - Response accepted.

CITY OF KINGSLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-J-06     Tax Increment Financing Fund Balance - There are several different T.I.F. districts, but all activity is maintained in one fund. Therefore, it is not possible to determine the actual balance in each district.

Recommendation - The City should determine how the fund balance should be allocated between the districts and should continue to maintain the records to help determine the appropriate balance in each district.

Response - The City Clerk will keep records of each TIF district's activity and keep actual balances of each TIF district.

Conclusion - Response accepted.